

YOUR PENSION MATTERS

Pompano Beach Police & Firefighters' Retirement System

Fiscal Year 2009

Second Quarter Ended March 31, 2009

by: Chief Paul O'Connell
Board Chairperson
May 29, 2009

“For investors as a whole, returns decrease as motion increases.” Warren Buffet (*The Oracle of Omaha*)

The Third Annual Pension Educational Symposium was held April 30 – May 2, 2009. It was a great success in a number of ways.

First, the attendance by non-board members of the Pension System increased fourfold. I had the chance to speak to some of those members who did attend and each gave rave reviews of what they saw and heard from our money managers. To quote one member, “It was an eye-opener.” Plans are underway for our next symposium in 2010 and hopefully you can attend some or all of the classes that are offered free of charge.

Second, it was pretty much a unanimous opinion from our money managers that the Great Recession of 2008 – 2009 hit bottom in March 2009. Very few believed that March was a “false bottom” like we saw in the last quarter of 2008. So, from that point forward it can be said that we began the very long climb out of the very deep financial hole created by what will surely be the worst recession of our lifetime. The question that our money managers could not answer was, “How long will it take us to climb out of the hole and reach the heights we saw in 2007?” There simply was no unified answer to this question other than to state that it will be a very long and gradual climb. Unemployment may get worse before it gets better and GDP should be flat or in negative territory through the remainder of the year.

Third, while many personal portfolios and other pension systems lost 40 – 50% of their value (Warren Buffet's *Berkshire Hathaway* fund suffered a 36% drop in value from its height!!); the Pompano Beach Police and Fire Retirement System lost about 27% of its value from its high of \$184 million. It is never good news to learn that we have lost so much of our value; it is only good news that, because of our diversification and our long term outlook, we did not lose as much as other pension systems.

Finally, you will recall in our last newsletter to you we revealed that, like so many other investors, our pension system was victimized by the infamous Bernie Madoff Ponzi Scheme. On the recommendation of our investment consultant, our Pension Board has reached an out of court settlement with the money manager responsible for this loss. In a nutshell the terms of the agreement were: 1) the System will recover 50% of the \$250,000 lost and 2) there will be a reduction in management fees going forward. As a result of this settlement, the Board made a decision to retain the money manager and move forward. When the Board first hired this firm in early 2008, we did so based on the firm's excellent track record and management philosophy. Regardless of the mistake that was made by the firm, those traits are still intact. The Board felt confident that the benefits of this settlement far outweigh the costs and the risks of the long and protracted litigation process.

October 1, 2008 Actuarial Report – on May 18, 2009, Steve Palmquist, the Retirement System’s Actuary, gave his annual report on the “State of the Pension” as of September 30, 2008. In other words, if we were to take a picture of the Fund dated September 30, 2008, what would its financial report card look like? First, we must acknowledge some actuarial adjustments made in the way we look at the Fund. These changes to “actuarial assumptions” were made in an effort to give a more accurate and balanced picture of the financial health of the Fund. Two of the more important assumption changes were:

1. the assumed rate of disabilities was reduced by one half based on the reduced experience of disabilities in recent years and
2. a new asset smoothing method was used to further reduce the investment return fluctuation from year to year.

Here are some highlights of that 10/1/08 actuarial report:

Overall net experience under the Plan during Fiscal Year 10/01/07 – 09/30/08 was less favorable than expected resulting in a net experience loss of \$7.83 million compared to a gain of \$4.80 million during the prior fiscal year. Remember, the *smoothing* technique used by the actuary takes gains or losses from the prior 5 years and spreads those gains or losses over the following years in an effort to “smooth” out the volatility of the investment markets. This technique helps bring a level of certainty or predictability to the budget process as the employer budgets for future contributions.

So, while the market value return of the Fund was -14.3%, the recognized return under the asset smoothing method was +3.6%. Good news, right? Wrong because the Fund “assumes” a yearly investment return of +8.5% and it fell well short of that mark. Thus, the City’s contribution for Fiscal Year 2009-2010 will increase by 3.05% of payroll for firefighters and the required contribution by BSO for police during the same FY will increase by 3.38% of payroll. Put in dollars and cents: the City must contribute \$3.9 million on behalf of the firefighters and BSO must contribute \$2.9 million on behalf of those police officers who are still active members of the Fund and still employed by BSO.

This report will be presented to the Pompano Beach City Commission during one of its June meetings (TBA) and the report, in its entirety, will be available for anyone to review subsequent to that meeting.

Here is a nutshell summary of FY 2008: **Good news** – the Fund is 76% funded. **Bad news** – the Fund suffered significant investment losses –14% during the same time frame (EVERYONE else in the investment world suffered like losses or worse). **The Future:** needless to say, the first 6 months of FY 2009 were very bad in that the investment losses the market suffered got worse. However, the news is not that bleak. As written above, our money managers have concurred that the market has “bottomed-out” and it is in the process of climbing out of a very deep hole. How long it takes to climb out of the hole and how fully it recovers (a quick and complete rebound?) is anyone’s guess.

Here is what we do know: The Fund is uniquely positioned to take full advantage of the rebound that lies ahead of us. **In the meantime & until then, stay safe and stay in touch!**

On behalf of the Pompano Beach Police & Firefighters’ Retirement System, we would like to express our deepest sympathy on the recent passing of the following retired members: Marvin “Rudy” Atkins, Sibley “Joe” Campodonico, George Dana, Andrew Grieco, Kenneth Holland, Robert Hosking, and Kenneth Shiver.

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of March 31, 2009

TRADITIONAL INVESTMENTS

| LORD ABBETT/BOSTON * | | Your Returns | | Russ 1000 Value | PSN Money Mgrs. | S&P 500 |
|------------------------------|---|---------------------|------------|--------------------------|--------------------------|---------------------------|
| Large Cap. Value | | Gross | Net | | | |
| | Quarter | (15.18) | (15.36) | (16.77) | (12.82) | (11.01) |
| | 1 year | (40.70) | (41.09) | (42.42) | (37.97) | (38.09) |
| | 3 year | (14.16) | (14.67) | (15.41) | (12.77) | (13.06) |
| | Since 10/31/2004 | (6.59) | (7.11) | (6.44) | NA | (5.67) |
| | <i>Lord Abbett/Boston - Since 9/30/2002</i> | 1.33 | | 1.97 | 2.80 | 1.64 |
| | <i>Lord Abbett/Boston - Since 6/30/1995</i> | 4.55 | | 5.54 | 6.23 | 4.65 |
| SANDS CAPITAL | | | | Russ 1000 Growth | PSN Money Mgrs. | |
| Large Cap. Growth | | | | | | |
| | Quarter | 6.91 | 6.75 | (4.12) | (5.14) | |
| | 1 year | (33.92) | (34.31) | (34.27) | (35.13) | |
| | 3 year | (13.76) | (14.25) | (11.28) | (11.34) | |
| | 5 year | (4.37) | (4.94) | (4.38) | (2.84) | |
| | Since 5/31/2003 | 0.05 | (0.49) | (1.10) | NA | |
| CORNERSTONE | | | | S&P 500 | | |
| Large Cap. Core | | | | | | |
| | Since 1/31/2009 | (2.52) | (2.52) | (2.82) | | |
| VOYAGEUR | | | | Russ Mid Value | | |
| Mid Cap. Value | | | | | | |
| | Since 1/31/2009 | (6.17) | (6.17) | (4.85) | | |
| WELLS | | | | Russ 2500 Growth | | |
| Small/Mid Cap. Growth | | | | | | |
| | Since 1/31/2009 | 3.25 | 3.25 | 0.04 | | |
| INVESCO | | | | MSCI EAFE Net | | |
| International Value | | | | | | |
| | Quarter | (14.21) | (14.53) | (13.93) | | |
| | 1 year | (41.26) | (41.77) | (46.51) | | |
| | 3 year | (12.89) | (13.48) | (14.47) | | |
| | 5 year | (1.17) | (1.83) | (2.18) | | |
| | Since 1/31/2004 | (0.78) | (1.41) | (1.57) | | |
| RENAISSANCE | | | | MSCI AC Wrld x US | | |
| International Growth | | | | | | |
| | Since 1/31/2004 | (4.66) | (4.66) | (2.05) | | |
| STANDISH MELLON | | | | BC Aggregate | BC Int. Aggregate | BC Int. Gov/Credit |
| Fixed Income | | | | | | |
| | Quarter | (0.29) | (0.36) | 0.12 | 0.91 | (0.05) |
| | 1 year | 0.44 | 0.13 | 3.13 | 3.38 | 1.97 |
| | 3 year | 4.45 | 4.14 | 5.77 | 5.89 | 5.63 |
| | 5 year | 3.44 | 3.11 | 4.13 | 4.15 | 3.69 |
| | Since 4/30/2003 | 3.68 | 3.33 | 4.26 | 4.22 | 3.89 |
| MUNDER CAPITAL | | | | BC Aggregate | BC Int. Aggregate | BC Int. Gov/Credit |
| Fixed Income | | | | | | |
| | Quarter | 0.24 | 0.18 | 0.12 | 0.91 | (0.05) |
| | 1 year | 4.12 | 3.85 | 3.13 | 3.38 | 1.97 |
| | 3 year | 6.24 | 6.00 | 5.77 | 5.89 | 5.63 |
| | 5 year | 4.58 | 4.34 | 4.13 | 4.15 | 3.69 |
| | Since 9/30/2002 | 4.69 | 4.42 | 4.47 | 4.37 | 4.16 |

ALTERNATIVE INVESTMENTS

| INVESCO | | | | | |
|----------------------------|-----------------|---------|---------|-----------------------|------------------------|
| REIT | | | | NAREIT | |
| | Quarter | (28.36) | (28.37) | (31.87) | |
| | 1 year | (53.76) | (54.02) | (58.16) | |
| | Since 6/30/2006 | (23.32) | (23.85) | (26.56) | |
| INVESCO | | | | | |
| Private Real Estate | | | | NCREIF/BC Agg* | |
| | Quarter | (9.96) | (9.96) | 0.12 | |
| | 1 year | (15.88) | (15.88) | (7.82) | |
| | Since 7/31/2006 | (0.30) | (0.30) | 6.19 | |
| OFFICE BUILDING | | | | | |
| Private Real Estate | | | | BC Aggregate | 90-Day T-Bill |
| | Quarter | 2.30 | 2.05 | 0.12 | 0.06 |
| | 1 year | 7.25 | 6.71 | 3.13 | 0.88 |
| | Since 3/31/2007 | 6.01 | 5.74 | 5.37 | 2.21 |
| UBP | | | | | |
| Fund of Hedge Funds | | | | HFRI FOF Cons | |
| | Quarter | 1.78 | 1.78 | (0.07) | |
| | Since 4/30/2008 | (16.39) | (16.39) | (18.02) | |
| Ironwood | | | | | |
| Fund of Hedge Funds | | | | HFRI FOF Cons | |
| | Quarter | 2.16 | 2.16 | (0.07) | |
| | Since 7/31/2008 | (25.71) | (25.71) | (17.42) | |
| Pine Grove | | | | | |
| Fund of Hedge Funds | | | | HFRI FOF Cons | |
| | Quarter | 2.29 | 2.29 | (0.07) | |
| | Since 9/30/2008 | (8.76) | (8.76) | (11.55) | |
| TOTAL FUND * | | | | Policy Index | Composite Index |
| | Quarter | (4.14) | (4.24) | (7.16) | (6.02) |
| | 1 year | (24.52) | (24.84) | (26.22) | (24.56) |
| | 3 year | (6.68) | (7.08) | (6.64) | (5.85) |
| | 5 year | (1.15) | (1.57) | (1.12) | (0.50) |
| | Since 9/30/2002 | 3.04 | 2.60 | 3.29 | 3.67 |
| | Since 6/30/1995 | 4.68 | | | |

Policy Index comprised of 25% Russell 1000 Value/ 25% Russell 1000 Growth/ 15% Dynamic Index/ 23% LB Aggregate/ 12% BC Int. Aggregate for periods prior to January 31, 2004; 22.5% Russell 1000 Value/ 22.5% Russell 1000 Growth/ 12% Dynamic Index/ 8% MSCI EAFE Net/ 23% BC Aggregate/ 12% BC Int. Aggregate for periods from January 31, 2004 to April 30, 2006; 22.5% Russell 1000 Value/ 22.5% Russell 1000 Growth/ 9.5% S&P 500/ 8% MSCI EAFE Net/ 22.5% BC Aggregate/ 10% BC Int. Aggregate/ 2.5% NAREIT/ 2.5% NCREIF from 4/30/06 to 4/30/08; and 22.5% Russell 1000 Value/ 22.5% Russell 1000 Growth/ 6.5% S&P 500/ 8% MSCI EAFE Net/ 22.5% BC Aggregate/ 10% BC Int. Aggregate/ 2.5% NAREIT/ 2.5% NCREIF/ 3% HFRI FOF Conservative for periods thereafter.

Per the Board's request, all performance results (including but not limited to rates of return, risk, measures, unit values, and dollar values) prior to September 30, 2002, were provided by GRS Asset Consulting Group, who was the previous consultant. The performance data is believed to be accurate, but there is no assurance. Smith Barney Consulting Group has not calculated or independently verified the accuracy of the returns or market values and is not responsible or liable for any mistake or miscalculations. Effective September 30, 2002, all valuations and rates of return are calculated by Citi Institutional Consulting.

* Index comprised of 100% Russ NCREIF for periods prior to 12/31/2008 & 100% Barclays Capital Aggregate fo periods since 12/31/08.